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Report to the Congress

On the Military Requirements and Costs of NATO Enlargement

February 1998

Executive Summary

U.S. Enlargement Costs

Introduction

Other U.S. Commitments

NATO Enlargement Requirements and Cost Reports

Other NATO Enlargement-Related Requirements

Comparison with February 1997 U.S. Study

Conclusion

Executive Summary

At the July 1997 NATO summit in Madrid, the North Atlantic Treaty Organization invited Hungary, Poland, and the Czech Republic to begin accession talks to join the Alliance. On February 11, 1998 the President transmitted the accession protocols to the United States Senate seeking its advice and consent on this central pillar of the Administration's strategy for ensuring European stability into the 21st century.

This report, submitted to Congress pursuant to the FY98 Department of Defense Authorization and Appropriations Acts and the FY98 Military Construction Appropriations Act, discusses the U.S. assessment of the NATO reports on common-funded enlargement requirements and costs, describes the analytical means used to prepare those reports, and delineates the anticipated U.S. share of NATO common-funded costs through 2002, as well as other considerations related to NATO enlargement.

The February 1997 Report to the Congress on the Enlargement of NATO: Rationale, Benefits, Costs and Implications illustratively outlined the broader dimensions of the military implications and costs of NATO enlargement, beyond just common-funded enlargement requirements and costs. That report also discussed both current members' and new members' military upgrades, which would be funded by those nations and are not addressed in detail in this more focused response to the Congressional requests cited above.

As a subsequent GAO report affirmed, the many uncertainties associated with the exact military implications and costs of enlargement prior to NATO's invitation to specific nations led DoD to develop an illustrative cost estimate. Many of these uncertainties were resolved at the July 1997 Madrid Summit and thereafter, as NATO formally decided which nations to invite, NATO's military authorities identified the military requirements of enlargement, and NATO staff developed an estimate of the costs of meeting those requirements.

The major conclusions of this report include:

- NATO's study of enlargement requirements is thorough, militarily

sound, and based on supporting a range of reasonable contingencies. Meeting these requirements will ensure that new members are integrated into the Alliance's military structure. This will enable an enlarged NATO to respond effectively to the challenges it could face in the projected security environment.

- **NATO's estimate of common-funded enlargement costs (about \$1.5 billion over 10 years) based on the military requirements study and endorsed by the Joint Staff, reflects more recent and more complete information and is, therefore, a better estimate than the common-funded portion of DoD's illustrative figure (\$4.9-6.2 billion*).** Thus, NATO enlargement will cost the United States considerably less than previously estimated.
- **The U.S. share of common-funded NATO enlargement costs will be the standard U.S. share, about 25 percent (\$400 million over ten years).** For FY99, these costs will be affordable within DoD's planned budget. In FY00-01, DoD expects to request \$5-12 million above current budget levels for NATO common-funded military budgets to cover projected enlargement costs. DoD projects that this figure will increase to \$32 million in FY02.
- **NATO's studies of enlargement requirements and costs and DoD's earlier illustrative analysis share important common features.** Both studies used the same reinforcement strategy and developed very similar military requirements, including the numbers and type of reinforcing forces and reception facilities. Both studies' common-funded enlargement cost estimates were spread over essentially the same time period.
- **NATO's estimate of enlargement costs is significantly different from DoD's earlier estimate.** First, NATO estimated only common-funded costs, while DoD estimated three broad categories of enlargement-related costs. Second, prior to NATO's identification of new members, DoD outlined general requirements and an illustrative cost estimate for four potential new members; after the July 1997 Madrid Summit at which NATO named the three invitees, NATO identified detailed military requirements and a common-funded cost estimate for three new members. Third, NATO's studies were based on more recent and detailed data on new members' infrastructure (e.g., airbases, road and rail networks) that revealed better conditions than DoD had previously assumed. Other differences were:
 - DoD assumed common funding for some requirements that NATO determined are nationally funded.
 - DoD's costing methodology and, in some instances, pricing assumptions differed from NATO's.
 - DoD included a few enlargement requirements that NATO did not.
- **The Administration's FY99 request of \$135 million for Warsaw Initiative activities is indicative of future funding requests.** The Administration does not plan to request significant funding increases for the Warsaw Initiative program in future years due to NATO enlargement.

* Adjusted to reflect three new members, rather than the four potential new members assessed in the DoD study. DoD's common-funded cost estimate for four new members was \$5.5-7.0 billion.

Introduction

NATO enlargement is a crucial element of the U.S. and Allied strategy to build a broader, undivided, democratic and peaceful Europe. The end of the Cold War changed the nature of the threats to this region, but not the fact that Europe's peace, stability and well-being are vital to our own national security. The accession of Poland, Hungary, and the Czech Republic to the North Atlantic Treaty Organization will improve the ability of the United States to protect and advance our interests in the transatlantic area. The addition of well-qualified democracies, which have demonstrated their commitment to the values of freedom and the security of the broader region, will help deter potential threats to Europe, deepen the continent's stability, bolster its democratic advances, erase its artificial divisions, and strengthen an Alliance that has proven its effectiveness both during and since the Cold War.

Poland, Hungary, and the Czech Republic have signed protocols of accession to join NATO as full members, with all the ensuing privileges and responsibilities of Alliance membership. While NATO enlargement will enhance the security of the United States and its allies and partners in Europe, enlargement will also entail certain financial costs for the United States and our allies in the coming years.

NATO member states provide resources to support the Alliance in two ways. First, states use national funding to ensure their own military forces can fulfill NATO requirements, and second, states make contributions to NATO's three common-funded budgets. These three budgets are the Military Budget, which primarily funds operations and maintenance for NATO military activities; the NATO Security Investment Program (NSIP), which primarily funds infrastructure improvements; and NATO's Civil Budget, which primarily funds personnel and facility costs for NATO's political officials.

The Department of Defense reported to Congress in February 1997 that the total costs of enlargement would be about \$27-35 billion over thirteen years. The DoD study was completed before NATO invited the Czech Republic, Hungary, and Poland to join the Alliance. DoD determined there were three categories of enlargement-related costs: the costs to new members to continue to restructure their militaries, the costs of force improvements already being pursued by existing members, and those costs related directly to enlargement (i.e., for ensuring interoperability between the forces of current and new members). While not directly related to enlargement, the first two categories of costs are important for the military credibility of an enlarged Alliance. The portion of DoD's total estimate for direct enlargement costs eligible for NATO common funding was \$4.9-6.2 billion.*

As a subsequent GAO report emphasized, the many uncertainties associated with the exact military implications and costs of enlargement prior to NATO's invitation to specific nations led DoD to develop an illustrative cost estimate. Many of these uncertainties were resolved at the July 1997 Madrid Summit and thereafter, as NATO invited the Czech Republic, Hungary, and Poland to join the Alliance, and commissioned a study of the military requirements for enlargement, and the resource implications of meeting those requirements.

NATO's two studies concluded that the addition of the three invitees will require approximately \$1.5 billion in NATO common-funded costs over the next ten years. The United States currently provides about 25 percent of these common-funded budgets, and will continue to do so after the addition of the new members. This means that the costs of enlarging NATO to include Poland, Hungary, and the Czech Republic for the United States will be approximately \$400 million over the next ten years, considerably less than

previously estimated.

There are other costs to the United States less directly related to NATO's enlargement. Through the Warsaw Initiative program, the United States provides bilateral assistance to Partnership for Peace participants, including Poland, Hungary, and the Czech Republic. While this bilateral assistance supports their efforts to become more interoperable with NATO, it is not a direct or automatic cost of enlargement, and continuation of this assistance will require annual appropriations and authorizations by Congress.

* Adjusted to reflect three, rather than four, new members.

TOP

NATO Enlargement Requirements and Cost Reports

At the July 1997 NATO Summit in Madrid, as the Alliance formally invited the Czech Republic, Poland, and Hungary for membership, NATO's leaders tasked the Military Authorities--notably, the Major NATO Commanders (MNCs) (SHAPE, in cooperation with SACLAN)--to formulate initial advice on the military requirements of an enlarged Alliance and to support the development by NATO's Senior Resource Board of an initial estimate of commonly-funded costs for meeting these requirements. In addition, NATO directed that these efforts support both the development of Target Force Goals geared toward integrating new members into NATO's ongoing defense planning process and the Defense Review Committee's assessment of the effects of enlargement on the force plans and defense requirements of current allies.

The Bi-MNC Requirements Study

Scope. The purpose of the military requirements study was to guide near-term investment to ensure the Alliance provides a credible Article V capability for collective defense with new members from their first day of membership. Toward that end, the NATO military authorities identified military requirements considered essential for seamless collaboration with the new NATO members. Major assumptions directed by the Military Committee to the MNCs for use in the analysis were as follows:

- The current security situation will not change significantly in the NATO planning period covered by the analysis.
- Consistent with current threat projections, the focus for planning purposes would be on collective defense against regional- rather than theater-scale aggression.
- Consistent with NATO's reinforcement strategy, prepositioning of forces and equipment was not necessary in the projected security environment (thus guiding the study to focus on the infrastructure of invited countries to receive reinforcements).
- For the purposes of this study, no new NATO headquarters would need to be established on the territory of the three invited countries.

Methodology. In conducting the study, the MNCs were directed to follow the same approach used to determine defense requirements for current members, including using NATO Defense Planning Questionnaires (DPQs) completed by the invited countries. This approach aimed to facilitate merging of enlargement planning activities into the ongoing NATO defense planning process. The MNCs were also directed to build on the country-specific military analyses completed by NATO in April 1997. Thus, SHAPE officials used a variety of data sources, including extrapolations of existing military requirements, information provided by the invited countries, and onsite visits to facilities in the invited countries considered representative of those facilities likely to be made available for the Alliance's use after accession of the new members.

The Military Committee directed SHAPE to focus the study on enlargement requirements eligible for NATO common funding in four areas: essential consultation, command, and control (C3) capabilities; necessary integrated air defense and associated air command and control; reinforcement infrastructure; and training and exercises. The requirements were identified without regard to cost and were based on analysis comparing the capability of potential opposing forces.

Study results. The analysis for this study was conducted over a five-month period by NATO and SHAPE staffs. The following summarizes the Bi-MNC findings.

- Consultation, Command, and Control (C3):
 - C3 requirements are crucial and must be met as soon as possible.
 - Initial focus is on linking NATO headquarters and invitees' headquarters.
 - Initial consultation links must be established prior to accession, while enhanced links need to follow shortly after accession.
- Integrated Air Defense:
 - Integration into the NATO Integrated Air Defense System is mandatory.
 - Upon accession, the invited nations' Air Sovereignty Operations Centers (ASOCs) will need to be linked with NATO air command and control.
 - After accession, additional command and control upgrades will be needed to further integrate new members into NATO's air defense system and, ultimately, into NATO's emerging Air Command and Control System.
- Reinforcement reception infrastructure:
 - The combined force levels of existing and invited members are adequate for coping with the assumed threat environment.
 - Infrastructure required for transport of land reinforcements in the invited countries is adequate.
 - Invitees' reinforcement airbases will require improvements to meet NATO standards.
- Training and exercises:
 - As a major challenge to the smooth transition to an enlarged Alliance is likely to be fundamental differences in interoperability in command and staff procedures, considerable effort will be needed to train, exercise, and assess the invitees' capabilities in these areas.

Assessment. The U.S. Joint Staff validated NATO's military requirements study, considering it to be thorough, militarily sound, based on supporting a range of reasonable contingencies, and sufficiently detailed to enable the development of reasonably accurate

cost estimates. The Joint Staff endorsed the study and recommended that the United States support its transmittal from the Military Committee to the North Atlantic Council for use in completion of ongoing resource implication studies. NATO foreign and defense ministers subsequently approved these studies. Meeting these military requirements will ensure that new members are integrated into the Alliance's military structure. This will enable an enlarged NATO to respond effectively to all anticipated contingencies in the projected security environment.

While the Bi-MNC analysis is sound, its conclusions are interim and contingent upon the results of the ongoing NATO defense planning process that now includes the invitees. This process will include:

- The development of target force proposals and the acceptance of those proposals by the invitees in the form of target force goals;
- Formal agreements between NATO and the invitee countries on facilities to which NATO will have access for potential reinforcement purposes;
- Detailed operational planning for reinforcement operations; and
- The identification and completion of detailed project plans (or what NATO calls "capability packages") necessary to meet enlargement requirements. Part of the capability package process will involve detailed site surveys of agreed NATO reinforcement sites, which will lead to projects to upgrade these facilities to acceptable NATO standards.

Conclusion. The study is firmly grounded in scenario-based requirements, actual site visits to assess existing infrastructure, and detailed interaction with the invitees and current members to assess military capabilities. Previous enlargement studies did not include these critical features. However, should any of the major assumptions upon which the study was based change, including the nature of the threat, there could be a significant impact on enlargement-related military requirements.

In the unlikely event that trends developed in such a way as to renew a direct, large-scale territorial threat to NATO members, then a fundamentally different -- and far more demanding -- set of requirements and costs would be needed. In such a situation, the United States and its allies would need to reassess the security environment and respond accordingly. There can be no question that the cost of responding to such a threat would be substantial. Just over ten years ago, for example, the United States and most of its Allies were spending nearly twice as much of GDP on defense as today. In such a circumstance, the added manpower, military capability, political support, and strategic depth afforded by NATO enlargement would amply justify whatever additional cost was incurred by integrating additional members into the Alliance.

Such a threat does not exist nor is there an expectation that it will emerge. Moreover, the United States and its Allies would have considerable warning and preparation time in the very unlikely event that such a dramatic change in the European security environment were to occur.

The Senior Resource Board Initial Cost Estimate

Scope and methodology. Following the July 1997 Madrid Summit, NATO's Senior Resource Board (SRB) was tasked to develop an initial estimate of the common-funded costs resulting from enlargement. Working very closely with the NATO military authorities as the enlargement requirements were developed, the SRB analysts estimated both the investment and the operation and maintenance (O&M) costs for meeting the common-funding-eligible requirements. The SRB cost estimates reflect NATO experts' judgment of the costs of typical improvements needed to implement NATO military requirements. They were not, however, intended to serve as budget-quality estimates. The estimates constitute a first step in a longer, comprehensive process of integrating the new

members into NATO's defense planning that will include additional site surveys, preparation of detailed requirements analyses, development of capability packages, and implementation of those packages for specific projects approved by the Senior Resource Board. It will take several years to complete this iterative process.

The SRB cost estimate was developed by members of the NATO International Staff who have extensive knowledge, developed through decades of experience, of working with NATO common-funded projects. The costing team worked closely with SHAPE, used Defense Planning Questionnaire information extensively, and participated in site visits to facilities in the three prospective new members. The cost profiles that the team developed were based on normal planning and implementation timelines of military investment projects but take into account the identified priority requirements (in C2 and air defense). In addition, these cost profiles draw on extensive empirical data that NATO maintains on all aspects of construction and procurements through the NATO infrastructure program. Where appropriate, distinctions were made between initial, mid-term, and longer-term requirements.

Summary of common-funded costs. Following are the SRB cost estimates for common-funded upgrades, totaling about \$1.5 billion over the 1998-2008 period:*

	Capital	O&M
	(In millions of dollars)	
Command and Control	51	79
Air Defense	560	21
Reception Facilities for Reinforcement	694	5
Training and Exercises	<u>6</u>	<u>36</u>
	1,311	141

* The figures were derived using the first quarter 1998 exchange rate of \$3.886 per NATO Accounting Unit (NAU). One NAU is 3.886 USD.

Command and control (C2). The C2 cost estimate reflects the costs of extending the NATO C2 network into the new member countries and providing basic communications interoperability. This includes an initial phase (before accession) that provides minimum communications capability for consultation by establishing cross-border connections and other communications equipment. The estimate also includes a post-accession phase of C2 costs due to additional upgrades.

Integrated air defense. The air defense cost estimate provides for the early integration of the new NATO members into the NATO Integrated Air Defense System. These efforts will establish interoperability and interfaces between new members' ASOCs and NATO C2 sites before accession. After accession, the Alliance will fund additional efforts to deepen the new members' integration into NATO's air defense system. The SRB estimate also includes costs for air defense radar systems in Poland, Hungary and the Czech Republic. Even though O&M costs of such facilities are not typically eligible for common funding, the SRB estimate included them because there have been exceptions to the general eligibility criteria in the past and the SRB sought to use conservative assumptions in its estimate of enlargement costs.

Reception facilities. The SRB estimate included costs that emphasized upgrades to air reception facilities, with some additional funds for upgrading land and maritime reception facilities. Airfield upgrade costs were based on staff visits to a number of sites and on NATO-approved criteria and standards for tactical and transportation airfields. Upgrade and some new construction costs were included for several airbases.

While the Bi-MNC analysis of land reinforcement requirements concluded that invitees' existing road and rail networks were adequate, SRB analysts included some modest costs for upgrading rail facilities and POL storage facilities. Maritime facility upgrades will be minimal, as Polish ports meet the basic military requirements. The SRB estimate thus includes costs for modest upgrades to piers and other maritime support facilities.

Training and exercises. The SRB estimate included costs associated with training and exercises. Although existing training facilities in the new member nations are considered adequate (and in some respects superior to facilities in current NATO members), funds for modest improvements, and limited funds for transporting new members' forces to exercises, were included in the estimate.

Assessment. DoD's review of the SRB cost estimate included both an examination of the SRB's assumptions and cost data as well as the development of an independent estimate using the SRB's assumptions about the military requirements and the conditions of military facilities in the prospective member countries.

DoD's review concluded that the SRB developed a sound and reliable estimate of the common-funded costs of fulfilling the military requirements identified by SHAPE--provided that the specific facilities to be selected during NATO's ongoing force planning process have essentially the same characteristics as those visited by the International Staff during the SRB's development of the cost estimate. The Department has every reason to expect that this will be the case. Recently, using the same assumptions that the SRB used, DoD produced an independently-generated estimate and arrived at essentially the same results as the SRB projection.

NATO's cost experts have substantial experience with common-funded projects similar to those that will be carried out in the new members' countries. In some cases the SRB estimate is based on nearly identical projects in current NATO member countries. In addition, the SRB study used conservative assumptions about the condition of new members' facilities in those cases where there was some uncertainty. For example, the SRB study included costs for port upgrades despite SHAPE's military assessment that such upgrades were not required.

Budget-quality estimates will be developed over the next several years, as NATO conducts detailed site surveys, prepares detailed operational plans, and develops capability packages and specific projects. As a result, NATO's estimate is subject to normal uncertainties associated with this ongoing planning process, which could lead to changes in the actual costs of enlargement. While not probable, costs could grow or diminish for a number of reasons:

1. Changes could occur as details of the implementation plan are finalized, (e.g., as specific airfields are chosen as reception facilities for reinforcing air squadrons);
2. Detailed engineering surveys may show that existing facilities require more or less remedial attention than suggested by the initial surveys; or
3. NATO could choose to make exceptions to its common-funding eligibility criteria.

The Department's assessment is that NATO's estimate of the common-funded enlargement costs is sound and based on reasonable assumptions, despite these normal uncertainties. The estimate uses the available information responsibly and uses conservative assumptions where appropriate to address uncertainties. The estimate also is refined and reliable, and it is based on the NATO military requirements study endorsed by the Joint Staff.

Comparison with U.S. February 1997 Study

This section compares the Administration's earlier study with NATO's December 1997 reports, including the type of information that served as the basis for each. The comparison discusses the broad similarities in the NATO and DoD studies of the military requirements of enlargement. It also outlines the reasons why the DoD and NATO cost estimates differ. Finally, it discusses those cost differences that can be precisely quantified, and those that cannot.

DoD study. In February 1997, the Administration submitted a *Report to the Congress On the Enlargement of NATO: Rationale, Benefits, Costs and Implications*. The report included the results of the Department of Defense's study of the military implications and costs of NATO enlargement. This study, conducted before NATO decided which countries would be invited for membership in July 1997, delineated notional military requirements related to enlargement for four potential new members and developed illustrative cost estimates for meeting those requirements.

Direct enlargement measures. The February 1997 DoD study estimated both the direct enlargement costs (i.e., for ensuring interoperability between the forces of current and new members) and the costs of force improvements already being pursued by existing and new members that will also contribute to carrying out NATO's missions in an enlarged alliance. The direct enlargement costs were for interoperability enhancements in command/C3I, reinforcement reception facilities, air command and control, and logistics. These costs were estimated to be about \$9-12 billion between 1997 and 2009, the date by which the study posited NATO would achieve a "mature" capability for Article V collective defense with new members. These costs included both expenses to be covered by NATO's common-funded budgets and investments the invitee nations would need to make due to enlargement. The U.S. share of these earlier estimated costs, chiefly for the U.S. share of the projects assumed to be eligible for NATO common funding, would average about \$150-200 million annually during the ten years following formal accession in 1999, totaling around \$1.5-2.0 billion.

Other related defense enhancements. In the February 1997 study, DOD also examined two other relevant categories of defense enhancements that would be undertaken regardless of whether enlargement occurs but are important for the military credibility of an enlarged Alliance. The cost the four potential new members would incur to restructure and selectively modernize their forces for their own national self-defense was estimated to be about \$10-13 billion over 1997-2009.

Estimated costs that our current Allies would incur to continue improvements to their regional reinforcement capabilities were around \$8-10 billion for the same period. These costs would correct key shortfalls in deployable logistics support for a typical reinforcement package. For purposes of the DoD study, a notional force of four divisions and six fighter wings was used for reinforcement in the most challenging scenario. Because U.S. forces, assumed to be part of the notional force, are already fully deployable, the United States would not bear any of these costs.

Similar requirements. Although the NATO report had the benefit of more detailed and recent information upon which to base its military requirements, the Administration's illustrative requirements and NATO's formal requirements are quite similar. The chart below depicts the major enlargement requirements of each report:

Studies Share Important Common Features: Similar Requirements

Communications

- **U.S. and NATO:** National HQ communications connectivity w/ NATO HQ

Air Defense Command and Control

- **U.S. and NATO:** Interoperable air C2 and ground radars

Reinforcements

Reinforcement Force

- Reinforcement packages for deployment to invitee territory were very similar

Infrastructure Upgrades

- Similar number of airfields upgraded, some rail and port upgrades
- U.S. study included upgrades to roads and staging areas

Training and Exercises

- **U.S.:** Some exercises, and upgrades to training facilities
- **NATO:** Some exercises, fewer upgrades at fewer facilities

The U.S. and NATO studies identified similar areas for improvement in each of the four broad categories of military requirements—communications, air forces and air defense C2, reinforcements and infrastructure, and training and exercises. Both studies recognized the need to connect the communications systems of the national military headquarters of new members to NATO headquarters, and to integrate new members into the NATO air defense system. Both studies recognized ground radars as a requirement; however, NATO included ground radars as an enhancement eligible for common funding, while the U.S. study assumed that radars would be a national responsibility.

The reinforcement forces (used for the purpose of determining infrastructure requirements) were quite similar. Both studies estimated essentially the same number of airfields requiring upgrades. In the training and exercises category, the U.S. study posited that some training facilities would be upgraded. NATO delineated fewer upgrades at fewer training facilities.

Different approaches. The two studies had fundamentally different purposes and approaches, in part due to the different types of information available at the time the respective analyses were conducted. The Administration's earlier study was notional and illustrative, and was intended to provide a general indication of the magnitude of the total requirements and costs—not just NATO's common-funded requirements and costs—related to NATO enlargement for a long-term planning horizon (i.e., through 2009). When this study was conducted in February 1997, much was unknown regarding the details of enlargement. NATO had not yet invited specific countries to join the Alliance, nor had it developed formal enlargement requirements. Hence, DoD developed general requirements for four potential new members based on U.S. government analyses of the condition of the military infrastructure in the prospective new member countries. At that time, DoD did not know which specific facilities might be offered for NATO's use, nor precisely how NATO might apply its eligibility rules for common funding for each project. The August 1997 GAO report on the Administration's study, "NATO Enlargement: Cost Estimates Developed to Date Are Notional," judged that DoD's basic approach was reasonable while suggesting that more precise enlargement cost estimates could be developed once NATO formally defined its future strategy, force and facility requirements, and formula for allocating costs.

The NATO reports on enlargement requirements and costs, in contrast, had more specific

objectives: the identification of military requirements for the near/medium term and NATO common-funded costs* for three new members to meet those requirements. The SRB report benefited from access to more recent and detailed information regarding the three invited nations. The military requirements NATO developed were based on extensive discussions with military officials and defense planners in the invited countries, visits to sites in those countries that may be available for Alliance purposes, and a review of the detailed response from each of the three countries to NATO's Defense Planning Questionnaire, which delineated their overall defense plans. Once the military requirements were established, NATO drew on concrete, historical cost data and prior experience in costing projects to provide an estimate of the common-funded costs of enlargement. Because NATO's estimate of common-funded enlargement costs (about \$1.5 billion over 10 years) reflects more recent and more complete information and is based on SHAPE's formal military requirements study, it is a better estimate than the common-funded portion of DoD's illustrative figure (\$4.9-6.2 billion).

* Funding for meeting these requirements was spread over the 1998-2008 period.

Reasons for cost differences. Despite the broad similarity in requirements, a detailed, line-by-line comparison of the cost estimates in the two studies is not feasible due to the different approaches and types of information used in the analyses. The majority of the difference in the two cost estimates can be explained by several factors; however, a precise depiction of the amount of the cost difference attributable to each of the factors below is not possible.

Most significantly, NATO only estimated common-funded costs for meeting military enlargement requirements. As mentioned earlier, the February 1997 DoD report included notional cost estimates for enlargement totaling \$27-35 billion. In contrast, NATO's estimate (about \$1.5 billion) only covers the common-funded costs directly related to meeting SHAPE's enlargement requirements. The common-funded portion of the earlier Administration cost estimate was \$5.5-7.0 billion.

Also, the initial U.S. cost estimate assessed four, not three, potential new members. If the U.S. analysis had studied only the three countries invited to membership, the overall U.S. estimate would have been lower by about \$1.1-1.4 billion, including a reduction in the common-funded portion by about \$600-800 million, resulting in a \$4.9-6.2 billion common-funded cost estimate.

Further, new members' infrastructure is in better condition than assumed in the U.S. study. Assessments by NATO and SHAPE planners and logisticians after conducting on-site visits indicate that the additional investment required to prepare new members' infrastructure (e.g. airbases and communications networks) for NATO membership will be significantly less than DoD had initially assessed on the basis of U.S. government assessments. For instance, site visits revealed that existing rail and road transportation networks are adequate for NATO's purposes, while DoD had assessed that significant upgrades would be required. New members' roads and rail complexes are today sufficiently capable to meet NATO's needs for moving and supporting reinforcements eastward.

The progress that the invited countries have made in the area of interoperability, some of which is a direct result of their participation in the Partnership For Peace, has generated tangible benefits for their integration with NATO. In part, this progress reflects the passage of over a year between the initial data-gathering for the U.S. study and the beginning of NATO's work. During this time, the invitees were vigorously working to enhance the interoperability of their forces and infrastructure. For example, due to preparations for Pfp exercises and lessons learned from those events, the new members' airfields that are expected to be offered for NATO's use generally have become more capable of receiving and supporting western aircraft than assumed earlier. F-16s, which are sensitive to foreign object damage, recently operated effectively from a Hungarian airfield. This progress means

that there is less work that needs to be done -- and in turn -- less money that needs to be spent to improve these airfields than was estimated earlier.

DoD's cost analysis differed from that used by NATO. DoD's assumptions regarding common funding eligibility and pricing differed from NATO's in some instances. NATO's criteria for determining common funding eligibility generally were more stringent than those reflected in DoD's analysis, particularly regarding O&M and certain other costs. Thus, in some cases DoD assumed that requirements would be eligible for common funding when in fact NATO determined that they are not. For example, DoD assumed that upgrades to off-loading equipment at airbases and minor renovations of national headquarters to accommodate NATO communication links would be eligible for common funding; NATO officials stated that such upgrades would not normally be eligible, i.e., they are national responsibilities. Those differing assumptions about eligibility that can be quantified account for a cost discrepancy totaling about \$400-500 million between the studies' cost estimates.

Further, DoD used aggregate cost factors in its analysis, which assign one price tag to a group of discrete projects that together make up a larger requirement (such as an airfield upgrade). In some cases, these cost factors were higher than the pricing that was used in NATO's analysis. For example, DoD's pricing assumptions for communications upgrades led to a significantly higher cost estimate in that area than NATO's, for essentially the same enhancements. The earlier DoD estimate relied on cost factors from similar U.S. projects when specific NATO cost data was not available.

Finally, modest differences in enlargement requirements have a significant impact on the cost difference. These differences in requirements do not have a substantial operational impact on NATO's capability for Article V collective defense with new members. However, the modest requirements differences--mainly in more upgrades to airfields and to training facilities in the U.S. study--account for an important share of the cost difference. Those requirements differences that can be quantified account for about \$500-700 million of the overall cost difference.

TOP

U.S. Enlargement Costs

This section responds to the Congressional request for DoD projections of NATO enlargement costs through 2002. The Department of Defense considers NATO enlargement costs to be the U.S. share of NATO common-funded costs for projects directly tied to the accession of new member states. This section details U.S. contributions to the NATO Security Investment Program (NSIP) and the NATO Military Budget associated with integrating Poland, Hungary, and the Czech Republic into the Alliance.

The NSIP funds a wide range of facilities and capabilities, including surveillance and intelligence, flexible command and control systems, mobility, logistics and transportation support, and the infrastructure to support both forward-deployed and reinforcing forces. Based on agreed national contributions, the total NSIP budget for 1999 is around \$734 million, of which the U.S. share is \$196 million. The Department proposes to meet this requirement with its FY1999 budget request of \$185 million, augmented by \$11 million in deobligations from prior-year projects. U.S. contributions to the NSIP are funded through Congressional appropriation of military construction funds. Generally speaking, only projects for common Alliance use over and above national requirements are eligible for common funding through the NSIP.

The NATO Military Budget provides for the operations and maintenance of NATO military headquarters and selected NATO agencies, and funds NATO's costs for contingency

operations such as the Stabilization Force in Bosnia. In 1999, the total NATO Military Budget is around \$720 million, to which the United States will contribute around \$227 million. U.S. contributions to this budget are obtained through annual Congressional appropriations to the Army operations and maintenance (O&M) account.

The NATO Civil Budget funds the salaries of NATO's international staff, its associated facilities and selected other programs. In 1999, the total NATO Civil Budget is around \$164 million, to which the United States will contribute \$46 million. U.S. contributions to this budget are obtained through annual Congressional appropriations to the State Department's foreign operations account

NATO's three budgets for FY99 and the U.S. contribution to each is outlined in the table below:

Table 1
NATO Budgets: Total and U.S. Share
(In millions of then-year dollars)

	<u>NATO Total (FY99)</u>	<u>U.S. Share (FY99)</u>
NATO Security Investment Program (Milcon Approps)	\$734	\$196
NATO Military Budget (Defense Approps)	\$720	\$227
NATO Civil Budget (Foreign Operations Approps)	\$164	\$46

The Department's Warsaw Initiative projects and those portions of other programs targeted at democratizing former Warsaw Pact militaries, such as International Military Education and Training (IMET), Foreign Military Financing (FMF), Foreign Military Sales (FMS), and Excess Defense Articles (EDA), are not considered to be costs of NATO enlargement. The primary objective of these programs is to encourage and support the expansion and strengthening of democracy in former Warsaw Pact states. Although these programs will also enhance new members' ability to contribute to Alliance missions, that is not their primary intent. The Department does not anticipate increases in budget requests for these accounts due specifically to NATO enlargement.

Estimates of DoD enlargement costs. Consistent with the definition set forth above, to date DoD has not incurred enlargement costs. DoD's estimated future enlargement costs can be drawn directly from the NATO studies approved by Secretary of Defense Cohen and his NATO counterparts at the December 1997 NATO ministerial meetings.

NATO's estimate for common-funded enlargement costs is around \$1.5 billion from 1998 through 2008. Since the United States funds approximately one-fourth of these common-funded budgets, the U.S. share of NATO enlargement costs is estimated to be around \$400 million. Of this total, \$84 million (or roughly 20%) is expected to be incurred through 2002. As the charts below indicate, the \$400 million in U.S. enlargement costs will not be spread evenly over the ten-year period, but rather will range from a few million upon accession of the new members to a more substantial amount as NATO's common-funded enlargement costs are projected to peak, probably around 2005.

DoD's estimated enlargement costs through 2002 are summarized below:

Table 2
Estimated DoD Enlargement Costs
(In millions of then-year dollars)

	<u>FY98</u>	<u>FY99*</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>	<u>FY9</u>
NATO Security Investment Program	--	9	1	20	32	7
OMA/Support of Other Nations	--	<u>1</u>	<u>3</u>	<u>4</u>	<u>4</u>	<u>1</u>
TOTAL	--	10	14	24	36	8

*Note: The FY1999 President's Budget does not request any funds specifically for NATO enlargement. As explained below, estimated costs of \$10 million in FY1999 can be met from currently budgeted amounts.

Project descriptions. As described in a preceding section, the Major NATO Commanders' assessment of military requirements for NATO enlargement focused on four areas for improvement: C3, integrated air defense, reception facilities for reinforcements, and training and exercises. The most urgent requirements, and thus the earliest expected costs, are for C3 and integrated air defense. Projects in these areas are necessary to create communications links between NATO headquarters and national headquarters in the invitee countries, and to ensure that these countries are fully integrated into NATO's air defense system. Of the costs shown in Table 2, approximately 20 percent are for C3 projects, and about 30 percent are for integration into the NATO air defense system.

Upgrades to reinforcement reception capabilities will generate the highest costs associated with enlargement, concentrated on upgrades to airbases in the invitee nations. These are the largest and longest-term projects identified by NATO's military authorities in the report -- forecast to begin in 1999 and continue until 2008. Roughly 40 percent of the costs shown in Table 2 are related to reinforcement reception upgrades.

Finally, in the area of training and exercises, only limited activities -- such as transport of forces to and from exercise sites and certain upgrades to facilities to meet NATO operational and safety standards -- are considered eligible for NATO common funding. This category also includes contact team activities between NATO military staffs and those of the invited nations. Training and exercises account for less than 10 percent of the costs shown in Table 2.

Share of estimated costs that are incremental. During 1998-1999 and the first few years following the accession of new members, some or all of the associated costs are expected to be met from within currently planned budgets. Thus, the Department has not requested any funds in FY1999 for NATO enlargement, and none of the \$10 million in U.S. costs expected to be incurred in FY1999 will require additional budget authority. Consistent with Congressional direction, any funding requirement that NATO presents to the United States for enlargement-related projects will be reported to Congress 21 days in advance of obligation.

Note: In 1997, the Department created, strictly for planning purposes, a funding wedge for NATO enlargement costs in the FY1999-2003 Future Years Defense Program (FYDP) based on the February 1997 notional U.S. cost estimate. Thus, the FYDP includes roughly \$100 million in FY2000, growing to nearly \$200 million by FY2003. The Department will replace these planning figures with revised estimates as the FY2000 budget is developed.

In 2000-2001, a continuation of current common-funded budget levels, as now planned by NATO, is sufficient to pay for some enlargement costs. The Department expects that, to cover NATO enlargement costs of \$14 million in FY 2000, current U.S. funding levels for

NATO common-funded budgets will need to increase by \$5 million. Similarly, the \$24 million in U.S. costs for NATO enlargement in FY2001 will require that the Department's budget request for NSIP and the Military Budget increase \$12 million above current levels.

There is likely to be some variation in the amount of enlargement costs that will be accommodated within currently planned budgets, depending on such factors as how NATO decides to handle increased contributions by Spain, the new members, and possibly France to the common-funded budgets; whether NATO's current project priorities and implementation schedules remain valid; and whether NATO elects to seek more resources overall for the common-funded budgets.

Beginning in 2002, as the bulk of enlargement costs begins to be incurred, we expect that virtually all of these costs will have to be reflected in increased DoD budget requests. The Department projects that its budget request for NSIP in FY2002 will need to be increased by the full \$32 million shown in Table 2.

In 2003 and beyond, the picture is less clear. Although NATO has estimated common-funded enlargement costs through 2008, it has assessed in detail the impact of these costs on its common-funded budgets (and, therefore, on national contributions to those budgets) only through 2002. Estimated common-funded enlargement costs for NATO as a whole are projected to peak in 2005 at around \$260 million, meaning that the U.S. share of such costs would peak at that time at around \$70 million. DoD expects that most or all of these costs will require resources above current budget levels.

Based on DoD's and NATO's assessment of the share of enlargement costs that can be paid from currently programmed amounts, the portion of DoD costs in Table 2 that is expected to be *incremental* is shown below (Table 3):

Table 3
DoD Enlargement Costs That Are *Incremental*
(In millions of then-year dollars)

	<u>FY98</u>	<u>FY99</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>
NATO Security Investment Program	0	0	5	12	32
OMA*/Support of Other Nations	<u>0</u>	<u>0</u>	==	==	==
TOTAL	0	0	5	12	32

* OMA refers to "Operations and Maintenance-Army," the appropriation account used to budget for the U.S. contribution to NATO's Military Budget.

TOP

Other U.S. Commitments

NATO enlargement will entail additional U.S. security commitments, in that the United States, as a member of NATO, will commit to the collective defense of the new members when they join the Alliance. Beyond that most solemn commitment, the United States has ongoing bilateral assistance programs to the new members, and engagement and training

activities underway that facilitate new members' effective integration into the Alliance's military structure. These efforts are discussed below.

U.S. Bilateral Assistance to Central Europe

Through the Warsaw Initiative program, which began in 1996, the United States has provided bilateral assistance to the majority of the 27 NATO partner nations that participate in the Partnership for Peace (PfP) program—including Poland, Hungary and the Czech Republic. This assistance has included funding for a host of activities and programs that, while not primarily aimed at preparing partner nations for membership in NATO, supports many efforts the three invitee nations have undertaken to become more interoperable with NATO. The Administration has requested \$135 million in FY99 for Warsaw Initiative activities, and given the program's broad focus on working with all NATO partners, does not foresee requesting significant funding increases due specifically to NATO enlargement in future years.

Bilateral assistance provided through the Warsaw Initiative includes PfP exercises, programs focused on areas such as defense planning and information management, and the provision of foreign military financing. Poland, Hungary, and the Czech Republic, as well as many other NATO partner nations, have participated in dozens of PfP exercises such as Cooperative Osprey and Cooperative Nugget to train with NATO forces and learn NATO standards and doctrine. The three invitee nations all participate in the Regional Airspace Initiative, which has funded construction of Air Sovereignty Operations Centers (ASOCs) in each country and is facilitating development of their civilian and military air traffic control systems. Each invitee also participated in the Defense Resource Management Study which focused on sharing defense planning and budgeting expertise. Finally, through foreign military financing provided by the Warsaw Initiative, Poland, Hungary, and the Czech Republic have purchased defense items ranging from communication radios to English language training aids.

Deployments and Training

The U.S. European Command (EUCOM) has developed a program to assess the three invitees' critical defense planning and military needs and to provide appropriate assistance to address those needs. The implementation of this program will not incur additional funding, as the plan reprioritizes the efforts of the existing Joint Contact Team Program with the invitees.

In this program, EUCOM has targeted several aspects of the invitees' military capabilities and defense planning processes for priority improvement. In those areas marked for improvement (including personnel, training, NATO doctrine, English language skills, C4I, and air defense/air traffic control), EUCOM has identified several performance indicators to help assess ongoing and new invitee defense programs. For example, in the category of NATO doctrine, EUCOM designated target force goals and exercise participation as relevant performance indicators. After identifying appropriate performance indicators, EUCOM outlined potential engagement assets that could be or are being used to address shortfalls in performance. These engagement tools include activities such as the Joint Contact Team Program, ongoing courses at the Marshall Center, PfP exercises, and others. Through this targeting process, EUCOM will eliminate duplicative efforts and enhance its ability to focus critical assets appropriately.

While EUCOM is currently in the process of developing additional plans that could result in a slight increase in required funding and operating tempo, those plans are still in the early phases of development and are contingent upon visits by the Commander-in-Chief of U.S. European Command and his staff to the three invitee nations this Spring to further clarify the invitees' specific needs. Until these assessments are complete, EUCOM cannot specify the precise resource impact of additional plans; however, EUCOM does not expect this

impact to be significant.

TOP

Other NATO Enlargement-Related Requirements

As discussed above, while the NATO study only addressed common-funded costs, the DoD study included two other categories -- upgrades to both current and new members' military forces not directly resulting from enlargement. NATO is addressing military requirements in these areas through its ongoing defense planning process, but will not develop associated cost estimates.

Collective defense planning in the Alliance is a fundamental element of the arrangements that enable its member countries to enjoy the crucial political, military, and resource advantages of collective defense and other common military efforts that enhance security and stability. It prevents the renationalization of defense policies, while at the same time ensuring national sovereignty. The aim of collective defense planning is to provide a framework within which national and NATO defense planning can be harmonized so as to meet the Alliance's agreed military requirements.

The NATO defense planning process is effectively addressing military requirements for both new and current members that will be important for the effectiveness of an enlarged Alliance. The development of Target Force Goals for the new members will ensure that new members' ongoing efforts to restructure and selectively modernize their militaries are focused on the critical areas for effective military integration into the Alliance. Similarly, NATO's ongoing Force Goals process has already resulted in tangible progress on the part of current Allies in developing the necessary regional reinforcement capabilities to be able to more effectively execute NATO's Strategic Concept. As a result of this ongoing process and the progress being made by both current and new members, the Defense Review Committee assessed the military impact of enlargement on current members' requirements as negligible, i.e., the accession of new members will not engender additional requirements for current members.

These important defense efforts cannot be considered as strictly enlargement requirements, as they preceded enlargement and would be occurring regardless of enlargement. Moreover, the costs of these activities are borne by those nations undertaking them.

Invitees' status. The invitees are now participating informally in NATO's defense planning process, which will ensure that their force capabilities can meet the standards outlined in the Ministerial Guidance that will be issued in December 1998, placing them on the same defense planning timeline as current Alliance members.

As the first step in this process, the invitees completed DPQs in October 1997. NATO analyzed those responses and returned a set of Target Force Goals to each invitee. The invitees currently are negotiating with NATO officials on the content of the final Force Goals (the same process that current member nations undergo), which will be released in late Spring 1998.

TOP

Conclusion

At the July 1997 NATO Summit in Madrid, as the Alliance formally invited the Czech

Republic, Poland, and Hungary for membership, NATO's leaders tasked the Military Authorities to formulate initial advice on the military requirements of an enlarged Alliance and to support the development by NATO's Senior Resource Board of an initial estimate of commonly-funded costs for meeting these requirements.

The Joint Chiefs of Staff validated the common-funded military requirements developed by the Major NATO Commanders as militarily sound. The development of these requirements was the first, not the last, formal step in integrating new members into the Alliance's defense planning process. It will not be easy to meet these requirements--it will require careful planning, reordered priorities, and sustained commitment. Such challenges are nothing new to NATO, nor does the scope of this challenge exceed previous tests that NATO has successfully met. Meeting these military requirements will enable an enlarged NATO to respond effectively to all anticipated contingencies in the projected security environment.

The Department of Defense assesses NATO's initial estimate of common-funded enlargement costs as sound and reliable. In the Department's best judgment, this cost estimate is reasonable, as it is based on the NATO military requirements study endorsed by the Joint Staff and employs conservative assumptions where appropriate. Because NATO's estimate of common-funded enlargement costs (about \$1.5 billion over 10 years) reflects more recent and complete information, it is a better estimate than the common-funded portion of DoD's illustrative figure (\$4.9-6.2 billion).